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Smaller Homes May Spark Recovery

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Smaller homes may spark recovery

On the surface, it looks good: The stock market has recently broken through the 3200 level, the Federal Reserve Board has cut the discount lending rate by half over the past year to a 27-year low of 3.5 percent, the average 30-year, fixed-rate mortgage has reached an 18-year low, and the housing affordability index has reached its highest level in 17 years.

So why is housing still in the doldrums?

Throughout the country, sales of new single-family houses were down 7.1 percent for the first 11 months of 1991, with the Northeast reporting the deepest of all. Sales here were down 44.6 percent, the worst record for the region in the past 10 years.

Rhode Island fared no better. In the first nine months of 1991, sales of existing single-family houses were down 7 percent. Price declined 3.1 percent to a median of $123,000, but that is still 21 percent higher than the national median of $101,900.

With more than a half-million jobs lost in New England over the past two years and with a stagnant national economy, consumer confidence has dropped to record-low levels, and business interests are faring little better. "If 1991 was a year of declining consumer confidence, 1992 is beginning as a year of deteriorating business confidence," said Daniel Burke, CEO of Capital Cities/ABC-TV.

If the economy is to bounce back, one of the key ingredients of success will have to be the housing industry. The $250 billion construction industry is dominated by the residential sector, consuming over half of all construction dollars. Further, McGraw-Hill's Construction Information Group predicts that institutional, commercial and industrial building will be flat in 1992, and single-family housing will be the dominant activity for the near term and long term, growing by 18 percent in 1992.

If this rosy housing projection is to become a reality, then further changes need to be made. But based on past history, the outlook does not look very promising.

Lack of affordable housing

Consider recent studies that point out that low-income renters and first-time home buyers are very frustrated. *A Place to Call Home*, a study by the Washington-based Center of Budget and Policy Priorities and the Low-Income Housing Information Service, states that from 1970 to 1989 the number of affordable rental housing units in the country declined by 1.3 million, while the number of low-income households rose by 3.2 million. In addition, the study found that 3.5 million of the 9.6 million poor households spent at least half of their income on housing in 1989.

The study states that gentrification, abandoned housing and the conversion of apartments to condominiums contributed to the shortage of affordable housing units, but it said the major culprit was the federal government's massive cuts in funds for housing production and housing assistance.

For the first-time home buyer, the problem of getting into the housing market is almost as formidable.

One reason may be that homes are getting bigger and more expensive. According to the National Association of Homebuilders, the size of a new home rose from a median 1350 square feet in 1970 to 1595 square feet in 1980 and 1905 square feet in 1990.

Amenities cost

These homes are getting more amenities, too. For example, from 1980 to 1990, the number of houses having one or more fireplaces increased from 56 to 66 percent. Also, houses having two-and-a-half baths increased from 25 percent to 45 percent, houses with a two-car garage increased from 56 percent to 72 percent, homes with central air conditioning went from 63 percent to 76 percent and houses with four bedrooms or more grew from 20 percent to 29 percent. Lot size increased, too. A median-sized lot for a new house in 1985 was 8875 square feet; in 1990 it was 10,000 square feet.

The US Census Bureau recently studied how this trend contributes to high housing costs. The study determined that if a house which sold at an average price of $83,900 in 1982 were sold in 1987, the average price should be $98,000 based on inflation and other factors. But the Census Bureau said the average price was actually $127,200, which "may be attributed to the shift toward larger houses, and houses with more amenities."

These factors obviously make it doubly hard for the first-time home buyer to get into the housing market. Further, according to Harvard Joint Center for Housing Studies, the problem was exacerbated by a decline in real income among young families. The typical married couple, aged 25 to 29, experienced a wage loss of 7 percent in constant dollars from 1970 to 1990, while the price of a typical starter home increased by 21 percent. The result is that the percentage of young homeowners was lower in 1990 and 1991 than it was in 1973. For example, 60.2 percent of those aged 30 to 34 owned a home in 1973, but only 51.5 percent owned a home in 1990.

Reducing the size of homes could help. When William Levitt built a 800-square foot expandable house on Long Island in the postwar period that initially sold for less than $7000, using pioneering mass-production construction methods, he satisfied a massive demand for thousands of homes. The three Levittowns he constructed are a monument to his expertise and vision.

The optimistic mood of the stock market is an encouraging sign for the economy, and with the lower mortgage rates, the outlook for the housing market looks better, too. But the industry needs to better tailor its product to the first-time home buyer, and the government needs to do more for the rental market. Under those conditions, the housing market can return to its leadership role in revitalizing the national economy.

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